HOUSING MARKET OUTLOOK
Kingston CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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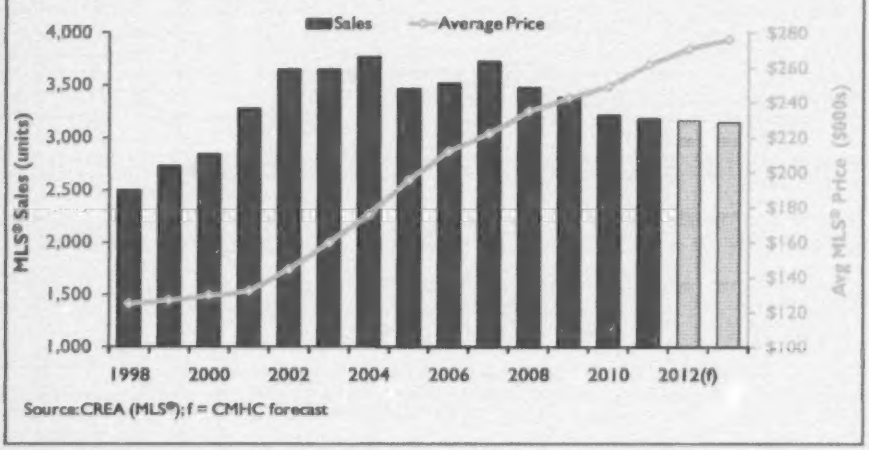
Market at a Glance

- Kingston's existing home sales will moderate in the next two years to levels that are considered more sustainable and in line with historical norms.
- Kingston's existing home average price to increase by 3.4 per cent in 2012 and 2.0 per cent in 2013. This growth rate is less than the average seen in pre-recession years, as the number of new-listings outpaces the number of sales.
- At 715 units in 2012 and 670 units in 2013, Kingston's total housing starts are expected to fall gradually to a level consistent with changes in household formation. Rising mortgage carrying costs and reduced spill-over demand from the existing home market will dampen residential construction activity.

Figure 1

Kingston Existing Home Sales Back to Historical Norms



Source: CREA (MLS®); f = CMHC forecast

* The forecasts included in this document are based on information available as of April 27, 2012.

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Resale Market

Existing home sales back to historical norms

In recent months, Kingston households have been accelerating their home purchase decision by entering the market in early 2012. The prospects of tighter mortgage markets encouraged more first time buying activity. Consequently, the second half of 2012 will see less growth in sales activity. Nevertheless, the drag on sales from fewer first-time buyers will be partially offset by improving labor market conditions. In essence, Kingston's annual existing home sales are projected to return to a more sustainable level and in line with historical norms.

Existing home average price to grow at sustainable pace

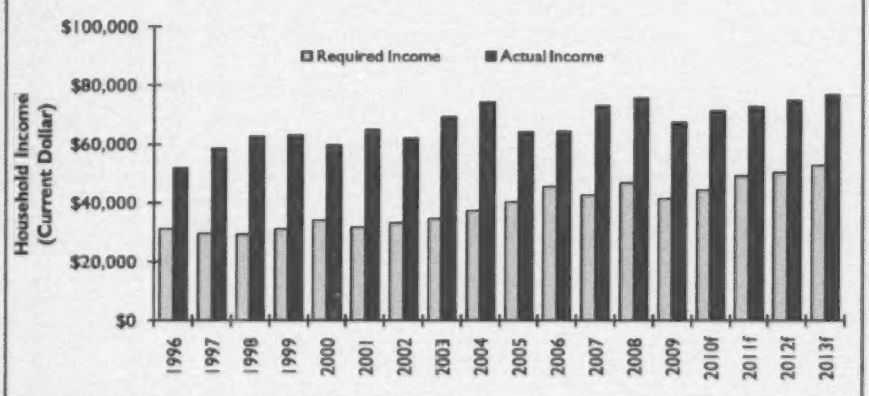
In the next two years, the existing home market in Kingston will be characterized by steady demand, increasing new-listings, slow price growth and balanced conditions. As a result, Kingston's average resale price is expected to increase modestly by 3.4 per cent in 2012 and 2.0 per cent in 2013. This projected price growth is lower than historic norms.

Worthy of note is that house prices in Kingston have grown at a sharp pace in recent months. Therefore, higher mortgage carrying costs will lead to a gradual decline in homeownership demand. Generally, first-time buyers are more sensitive to a rise in mortgage carrying cost.

Nonetheless, household income growth will continue to sustain healthy consumer spending and will partially offset the impact of increased mortgage carrying costs. On balance, and according to the latest CMHC calculation, required income[1] to buy a home in Kingston is anticipated to increase slightly relative to the actual income for the average household. Consequently, a modest deterioration in homeownership affordability is projected for 2012 and 2013.

Figure 2

Kingston's Required vs. Actual Income



Souce: CMHC, Statistics Canada, CREA

New Home Market

Total housing starts to mirror household formation

Kingston's total housing starts are projected to fall gradually to a level consistent with changes in household formation. The pulled-forward housing demand seen in recent months should dissipate by the second half of 2012. Consequently, this may reduce the spill-over effect from the resale market into the new home market – particularly for more expensive single-detached dwellings. In essence, single-detached starts will weaken from last year's level, despite a strong performance in the first three months of 2012.

Meanwhile, developers in Kingston are expected to scale back apartment starts in 2012 and 2013, given the increased number of rental structures that are currently under construction. More specifically, as of the first quarter 2012, the number of apartment units under construction reached 368 – up approximately 94 per cent from the same period a year earlier. As well, during the corresponding period, about 56 rental units were completed and not yet absorbed into the market – suggesting a potential increase in supply for 2012.

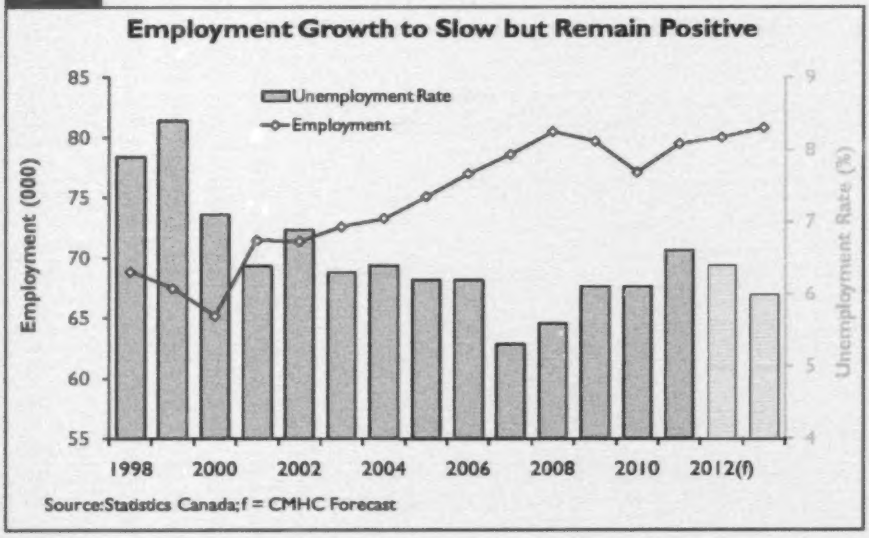
[1] Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated based on 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization for a mortgage loan.

Figure 3

Row starts to continue current momentum

Single-detached dwellings are most popular among home buyers in Kingston due to the demographic composition. On the other hand, some first-time buyers will be more likely to settle for a less expensive home as mortgage carrying costs are expected to rise in late 2012 and into 2013, though at a gradual pace. Accordingly, row starts will continue the current momentum through the remainder of 2012 and into 2013 as demand shifts in favour of smaller dwellings. As well, semi-detached starts are projected to increase in the next two years. Currently, the inventory levels of row and semis are below historical average. This should result in higher starts for these types of structures at least in the short-run.

Figure 4



Local Economy

Kingston's employment growth to slow but remain positive

Almost midway through the first half of 2012 there are some clear signals that prospects for job creation in Kingston are more positive, despite the lingering concern about the potential impact of the Federal and Provincial deficit reduction plan. Meanwhile, the current renovations to expand the Collins Bay, Pittsburgh, Bath and Frontenac facilities should help mitigate the impact from the potential closure of the Kingston penitentiary. Basically, these renovations could absorb displaced labour that may be affected by the new deficit reduction initiatives.

Even as the public administration sector continues to shrink, the local economy has been creating jobs since April 2011 – the longest uninterrupted post-recession employment gains. This consistent job creation has been accompanied by solid gains in full-time positions, suggesting stable business confidence in the economic recovery. Looking ahead, the sustained improvement in private sector employment should continue to make a healthy contribution to growth in Kingston's economy through 2013. More specifically, employment in Kingston is projected to increase marginally by 0.6 per cent in 2012 and 1.0 per cent in 2013. Essentially, the velocity of employment growth is expected to outpace the level of labour force increase, pulling down the unemployment rate in the next two years.

Health care sector to remain a key source of job creation

With an aging population and a longer life expectancy, the health care industry has one of the best growth projections of any sector. As evidenced by the recent labour force data from Statistics Canada, this sector created about 1,200 additional jobs in March 2012. During the same period, the health care sector accounts for approximately 16 per cent of total employment in Kingston.

Kingston to attract baby-boomers

In the next two years, Kingston will continue to experience population growth fuelled by baby boomers that are moving into the CMA to enjoy modest urban lifestyle. According to data from Statistics Canada, in the past four years, Kingston has been benefiting from positive inter-provincial and intra-provincial migration. A high proportion of these migrants come from the 45 to 64 age group. Given the upward trend in Kingston's migration activity, net migration in the CMA is projected to add on average approximately 1,000 new residents annually for the next five years.

Mortgage Rate Outlook

CMHC uses publically available information and the consensus among major Canadian forecasters as a basis for its interest rate forecast. Although there is significant uncertainty, consensus forecasts suggest that interest rates are not expected to rise until at least later in 2012, but will remain low by historical standards, thus supporting the Canadian housing market.

According to CMHC's base case scenario, posted mortgage rates will increase near the end of 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.1 to 3.6 per cent range, while the five-year posted mortgage rate is forecast to be within 5.0 to 5.4 per cent. For 2013, the one-year posted mortgage rate is expected to rise with interest rates and be in the 3.5 to 4.1 per cent range, while the five-year posted mortgage rate is forecast to be within 5.1 to 5.6 per cent.

Forecast Summary Kingston CMA Spring 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	3,377	3,209	3,179	3,165	-0.4	3,150	-0.5
MLS® New Listings	6,259	6,286	6,516	6,550	0.5	6,600	0.8
MLS® Average Price ($)	242,729	249,509	261,968	271,000	3.4	276,500	2.0
New Home Market							
Starts:							
Single-Detached	432	522	467	450	-3.6	440	-2.2
Multiples	285	131	492	265	-46.1	230	-13.2
Semi-Detached	20	24	28	40	42.9	50	25.0
Row/Townhouse	41	37	70	75	7.1	80	6.7
Apartments	224	70	394	150	-61.9	100	-33.3
Starts - Total	717	653	959	715	-25.4	670	-6.3
Average Price ($):							
Single-Detached	269,153	277,517	288,320	288,483	0.1	294,500	2.1
Semi-Detached	204,892	194,525	265,593	-	-		
Median Price ($):							
Single-Detached	269,300	267,400	282,000	279,500	-0.9	284,500	1.8
Semi-Detached	189,900	193,550	267,950	-		-	
New Housing Price Index (% chg) (Ont.)	0.1	2.4	3.6		-		-
Rental Market							
October Vacancy Rate (%)	1.3	1.0	1.1	1.6	0.5	1.8	0.2
Two-bedroom Average Rent (October) ($)	909	935	965	998	3.4	1020	2.2
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	79,700	77,100	79,500	80,000	0.6	80,800	1.0
Employment Growth (%)	-1.0	-3.3	3.1	0.6		- 1.0	-
Unemployment rate (%)	6.1	6.1	6.6	6.4		- 6.0	-
Net Migration [1]	1,001	1,189	1,520	1,200	-21.1	1,300	8.3

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2011 and 2012 migration numbers are forecasts

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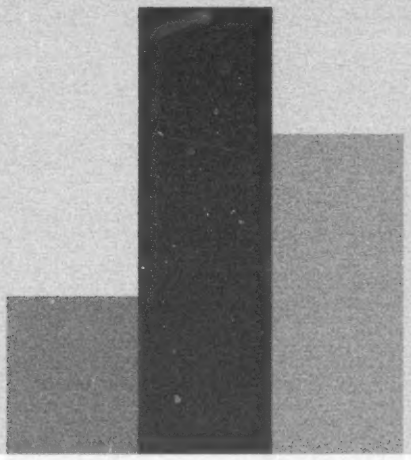

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